

Message Text

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PAGE 01 BERN 04574 061414Z

53

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SUBJ: DECEMBER 8 TAX REFERENDUM

REF: BERN A-287, ITEM 6

1. SUMMARY. GOS HAS MADE ALL-OUT EFFORT TO CONVINCE SWISS VOTERS THEY SHOULD APPROVE INCREASED WHOLESALE AND RETAIL TURNOVER TAXES AND HIGHER MAXIMUM INCOME TAX RATES IN DECEMBER 8 NATIONAL REFERENDUM. TAX MEASURES WILL PROBABLY BE APPROVED BUT CLOSE VOTE EXPECTED. END SUMMARY.

2. ON DECEMBER 8 SWISS VOTERS WILL DECIDE WHETHER OR NOT THEY WILLING TO PAY MORE TAXES. ON THAT DATE NATIONAL REFERENDUM TO BE HELD ON TWO DECREES WHICH CONSTITUTE GOS FISCAL PROGRAM (REFAIR) TO INCREASE TAXES AND CONTROL EXPENDITURES. (VOTERS WILL ALSO BE ASKED CHOOSE AMONG MINOR, MAJOR, OR NO EXPANSION OF THE PRESENT NATIONAL HEALTH INSURANCE PROGRAM.) MAJORITY VOTE OF PEOPLE AND CANTONS REQUIRED FOR APPROVAL EACH DECREE.

3. TAX DECREE WOULD INCREASE FEDERAL WHOLESALE AND RETAIL TURNOVER TAXES BY 36 PERCENT EFFECTIVE APRIL 1, 1975, RAISE MAXIMUM INDIVIDUAL AND CORPORATE INCOME (NATIONAL DEFENSE) LIMITED OFFICIAL USE

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PAGE 02 BERN 04574 061414Z

TAX RATES BY APPROXIMATELY 14 PERCENT, AND INCREASE SOME

INDIVIDUAL TAX DEDUCTIONS. ESTIMATED ADDITIONAL REVENUES FROM INCREASED TURNOVER TAXES ARE SF 685 MILLION IN 1975, GROWING TO SF 1,840 MILLION IN 1979. HIGHER FEDERAL INCOME TAX CEILINGS EXPECTED GENERATE ADDITIONAL REVENUES OF SF 120 MILLION IN 1976 AND SF 365 MILLION BY 1979. SECOND FISCAL DECREE WOULD REQUIRE TWO-THIRDS MAJORITY VOTE OF PARLIAMENT (INSTEAD OF PRESENT SIMPLE MAJORITY) FOR APPROVAL INCREASED GOS EXPENDITURES.

4. GOS HAS LAUNCHED INTENSIVE CAMPAIGN ON NECESSITY FOR APPROVAL TWO FISCAL DECREES STRESSING "CIVIC RESPONSIBILITY" OF PEOPLE TO VOTE "DOUBLE YES." FINANCE MINISTER CHEVALLAZ, PRESIDENT BRUGGER, AND OTHER HIGH GOS OFFICIALS HAVE DELIVERED THEIR MESSAGE ON ALMOST DAILY BASIS FOR PAST MONTH THROUGH SERIES OF SPEECHES, AND TV, RADIO, AND PRESS INTERVIEWS. GOS ARGUMENT IS THAT 1975 BUDGET EXPENDITURES SUBMITTED TO PARLIAMENT ARE MINIMUM NEEDED FOR CONFEDERATION TO MEET ESSENTIAL COMMITMENTS. NEVERTHELESS, PARLIAMENT APPEARS READY CUT EXPENDITURES TO REDUCE 1975 DEFICIT FROM SF 594 MILLION PROPOSED BY FEDERAL COUNCIL TO SF 307 MILLION. THIS INTENDED SHOW VOTERS THAT EVERY POSSIBLE EFFORT BEING MADE HOLD DOWN SPENDING, EVEN THOUGH SOME CUTS LIKELY BE RESTORED THROUGH SUPPLEMENTARY APPROPRIATIONS DURING 1975.

5. IF TAX MEASURES NOT APPROVED, OFFICIALS HAVE SAID PUBLICLY THAT EVEN MORE PAINFUL EXPENDITURE CUTS WILL HAVE TO BE MADE BUT HAVE REFUSED BY VERY SPECIFIC. ON SEVERAL OCCASIONS, HOWEVER, COUNCILOR CHEVALLAZ HAS HINTED THAT FEDERAL SUBSIDIES WOULD BE FIRST TO SUFFER. (MAIN BENEFICIARIES OF SUBSIDIES ARE AGRICULTURAL SUPPORT PROGRAMS, CANTONAL GOVERNMENTS, NATIONAL HEALTH INSURANCE SYSTEM, AND SCIENTIFIC RESEARCH.) MOREOVER, IN RECENT OECD AIR REVIEW, SWISS OFFICIALS INDICATED ALREADY SMALL DEVELOPMENT ASSISTANCE PROGRAM MIGHT BE FURTHER REDUCED WITHOUT ADDITIONAL TAX REVENUES.

6. EMBASSY UNDERSTANDS GOS CONSIDERING POSSIBILITY OF IMPOSING HIGHER TAXES BY EMERGENCY DECREE IF VOTERS REJECT FISCAL PROGRAM. UNDER EMERGENCY DECREE, WHICH REQUIRES PARLIAMENTARY APPROVAL, TAX INCREASES COULD BE IMPOSED FOR LIMITED OFFICIAL USE

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PAGE 03 BERN 04574 061414Z

ONE YEAR AFTER WHICH THEY WOULD HAVE TO BE EITHER RESCINDED OR SUBMITTED AGAIN TO POPULAR REFERENDUM. THIS WOULD BE LAST DITCH ACTION, HOWEVER, AND GOS WOULD BE SUBJECT HEAVY POLITICAL PRESSURE TO PUT FISCAL HOUSE IN ORDER.

7. EDITORIAL COMMENTS IN GERMAN AND FRENCH LANGUAGE PRESS HAVE SUPPORTED NEED FOR ADDITIONAL TAX REVENUES. THREE MAJOR POLITICAL PARTIES HAVE ALL RECOMMENDED YES VOTES ON

BOTH FISCAL DECREES; HOWEVER, GENEVA SECTION OF SOCIALIST PARTY AND SEVERAL SMALLER PARTIES ARE OPPOSED. LABOR GROUPS FAVOR TAX INCREASES BUT LARGEST SWISS GRADE UNION ORGANIZATION AGAINST TIGHTER CONTROLS ON GOVERNMENT SPENDING.

8. MOST GOVERNMENT AND PRIVATE OBSERVERS RELUCTANT SPECULATE ON OUTCOME OF VOTE BUT ALL AGREE IT WILL BE CLOSE. WHEN PRESSED MAJORITY OF THESE OBSERVERS SAY THEY THINK BOTH FISCAL DECREES PROBABLY WILL BE APPROVED BUT POSSIBLY BY SLIM MARGINS. EMBASSY SHARES THIS VIEW.

9. GOVERNMENT REPORT ISSUED THIS WEEK PREDICTS THAT EVEN WITH HIGHER TURNOVER AND INCOME TAX COLLECTIONS, PLUS REVENUES FROM RECENTLY IMPOSED IMPORT SURCHARGE ON GASOLINE AND HEATING OIL (WHICH WILL BE SUBJECT TO NATIONAL REFERENDUM NEXT JUNE), FEDERAL DEFICITS WILL CONTINUE TO GROW REACHING MINIMUM OF SF 2.4 BILLION BY 1979. WITHOUT ADDITIONAL REVENUES AND MAKING MORE PESSIMISTIC ASSUMPTIONS ABOUT FUTURE EXPENDITURES, REPORT SEES 1979 DEFICIT AS HIGH AS SF 4.2 BILLION. GOS EXPECTS HAVE BROADLY BASED VALUE-ADDED TAX SYSTEM IN PLACE BY 1980 AND DEFICITS SHOULD THEN BEGIN TO DECLINE. REPORT STRESSES, HOWEVER, THAT WITH OR WITHOUT NEW REVENUES A FUNDAMENTAL CHANGE IN GOVERNMENT FISCAL PRACTICES IS NEEDED. SPENDING AND INCOME SHOULD BE MORE CLOSELY RELATED WITH APPROVAL MAJOR EXPENDITURES CONDITIONED ON DESIGNATION OF ADEQUATE REVENUES.
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